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**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

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**Annual Financial Statements  
December 31, 2004 and 2003**

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 7-20-05

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

Annual Financial Statements  
December 31, 2004 and 2003  
With Supplemental Information Schedules

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**Accountant's Compilation Report**

Board of Commissioners  
Mount Hermon Water District of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Mt. Hermon, Louisiana

We have compiled the accompanying financial statements of the business-type activities of Mount Hermon Water District, Louisiana, a component unit of the Washington Parish Council, as of and for the fiscal years ended December 31, 2004 and 2003, which collectively comprise the District's basic financial statements as listed in the table of contents, and the accompanying supplementary information schedules on pages 31 through 35, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

The management's discussion and analysis, on pages 6 through 13 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have compiled the supplementary information from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

We are not independent with respect to Mount Hermon Water District, Louisiana.



Bruce Harrell & Company, CPAs  
A Professional Accounting Corporation

March 22, 2005

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## Management's Discussion and Analysis

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Management's Discussion and Analysis**

**Introduction**

Mount Hermon Water District is pleased to present its Annual Financial Report developed in compliance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments* (hereinafter referred to as GASB 34), and related standards. Please read the following in conjunction with the District's financial statements and footnotes, which follow this section.

**Financial Highlights**

- Total assets for the year were \$1,385,663 at December 31, 2004, and exceeded liabilities in the amount of \$674,970 (i.e., net assets). Of the total net assets, \$37,884 was unrestricted and available to support short-term operations, with the balance invested in capital assets, net of related debt, or restricted for capital activity and debt service.
- User fee revenues (water sales) for the fiscal year ending December 31, 2004 remained relatively constant increasing to \$101,745 representing an approximate 5.18% increase from the total user fees of \$96,738 for the fiscal year ending December 31, 2003. One of the reasons for the stability in total water sales was that there was only a small increase in the number of customers from December 31, 2002 to December 31, 2003.
- The District's operating expenses, consisting of those expenses resulting from the District's ongoing operations, other than interest expense and other non-operating expenses, decreased by \$1,676 (1.82% decrease) as compared to the prior fiscal year, totaling \$90,236 for the fiscal year ended December 31, 2004. The largest components of the decrease in operating expenses were a \$2,900 decrease in audit and accounting fees and a \$1,973 decrease in utilities expense.
- Total long-term debt decreased from \$703,268 at December 31, 2003, to \$693,216 at December 31, 2004. The decrease is due primarily to the payment of principal on the outstanding bond.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Management's Discussion and Analysis**

**Overview of Annual Financial Report**

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements and supplementary information. The MD&A presents an overview of management's examination and analysis of Mount Hermon Water District's financial condition and performance.

The financial statements report information on the District using full accrual accounting methods similar to those used in the private business sector. Financial statements include the Balance Sheet, Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows. The Balance Sheet provides information about the nature and amount of the District's resources and obligations at year-end, and provides a basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

The Statement of Revenues, Expenses, and Changes in Net Assets, accounts for the revenues and expenses for the fiscal year, and provides information on how net assets changed during the year. This statement measures the success of the District's operations in a format that can be used to determine if the District has recovered its costs through user fees and other charges.

The Statement of Cash Flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities, and provides information on the source of cash receipts, what the cash was used for, and the total change in cash for the reporting period.

The notes to the financial statements provide required disclosures essential to an understanding of the financial statements. The notes present information about the District's accounting policies, significant account balances and activities, commitments, contingencies, and subsequent events, if any. Supplementary information includes a comparative budget schedule and key information schedules on operation of the District.

**Financial Analysis**

The purpose of financial analysis is to help determine whether Mount Hermon Water District is better off as a result of the current year's activities. In this analysis, data from two of the basic financial statements, the Balance Sheet, and the Statement of Revenues, Expenses, and Changes in Net Assets, are presented below in condensed format. These statements report the net assets, the difference between assets and liabilities, and the change in net assets, which provides information for indicating the financial condition of the District. Following these statements is a separate schedule summarizing and analyzing budget changes for the current fiscal year.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Management's Discussion and Analysis**

**Condensed Balance Sheet**

	December 31, 2004	December 31, 2003	Dollar Change	Percent Change
Current and Other Assets	\$ 91,845	\$ 79,065	\$ 12,780	16.16%
Capital Assets	<u>1,293,818</u>	<u>1,333,898</u>	<u>(40,080)</u>	-3.00%
Total Assets	<u>\$ 1,385,663</u>	<u>\$ 1,412,963</u>	<u>\$ (27,300)</u>	-1.93%
Long-Term Debt Outstanding	\$ 693,216	\$ 703,268	\$ (10,052)	-1.43%
Other Liabilities	<u>17,477</u>	<u>18,681</u>	<u>(1,204)</u>	-6.45%
Total Liabilities	<u>710,693</u>	<u>721,949</u>	<u>(11,256)</u>	-1.56%
Invested in Capital Assets, Net of Related Debt	600,602	630,630	(30,028)	-4.76%
Restricted for Capital Activity and Debt Service	36,484	32,763	3,721	11.36%
Unrestricted	<u>37,884</u>	<u>27,621</u>	<u>10,263</u>	37.16%
Total Net Assets	<u>674,970</u>	<u>691,014</u>	<u>(16,044)</u>	-2.32%
Total Liabilities and Net Assets	<u>\$ 1,385,663</u>	<u>\$ 1,412,963</u>	<u>\$ (27,300)</u>	-1.93%

The major components of change for "Current and Other Assets" is a \$7,476 increase in operating cash and a \$4,647 increase in restricted cash, less decreases in receivables and other current assets.

"Capital Assets" decreased by \$40,080, reflecting depreciation expense charged for the fiscal year ending December 31, 2004.

The decrease in "Long-Term Debt Outstanding" of \$10,052 is due to payment of principal on the existing water revenue bond for the District. A more detailed analysis of the changes in long-term debt is included in a following section entitled "Long-Term Debt Activity".

"Other Liabilities" decreased by \$1,204, at 6.45% decrease compared to the prior year.

"Total Net Assets" (total assets less total liabilities) decreased by \$16,044 for the fiscal year ending December 31, 2004, with the major reason for the decrease being the depreciation expense charged on assets, as noted above.

**Mount Hermon Water District  
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**Management's Discussion and Analysis**

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets**

	Year Ended December 31, 2004	Year Ended December 31, 2003	Dollar Change	Percent Change
<b>Revenues:</b>				
Operating Revenues	\$ 109,027	\$ 103,865	\$ 5,162	4.97%
Nonoperating Revenues	126	206	(80)	-38.84%
Total Revenues	<u>109,153</u>	<u>104,071</u>	<u>5,082</u>	4.88%
<b>Expenses:</b>				
Depreciation Expense	40,080	40,080	-	0.00%
Other Operating Expense	50,156	51,832	(1,676)	-3.23%
Nonoperating Expense	34,911	35,373	(462)	-1.31%
Total Expenses	<u>125,147</u>	<u>127,285</u>	<u>(2,138)</u>	-1.68%
Income (Loss) Before Contributions	(15,994)	(23,214)	7,220	
Capital Contributions	<u>(50)</u>	<u>(98)</u>	48	
Change in Net Assets	(16,044)	(23,312)	7,268	
Beginning Net Assets	<u>691,014</u>	<u>714,326</u>	<u>(23,312)</u>	
Ending Net Assets	<u>\$ 674,970</u>	<u>\$ 691,014</u>	<u>\$ (16,044)</u>	

While the Balance Sheet shows the change in financial position of net assets, the Statement of Revenues, Expenses, and Changes in Net Assets provides answers to the nature and scope of these changes. The above table gives an indication of how Mount Hermon Water District is being conservatively managed. Total "Operating Revenues" (including water sales and revenues related to providing water and related services to customers) and "Non-Operating Revenues" (consisting of interest income and bad debt recovery) remained fairly constant, as did the number of customers served by the District. For the category of expense most controllable by the District, "Other Operating Expense", there was a \$1,676 decrease from the prior year with the main components consisting of a \$2,900 decrease in audit and accounting fees and a \$1,973 decrease in utilities expense. The final category, "Nonoperating Expense" includes interest expense which decreased by \$462 from the prior fiscal year.

The District showed a "Loss Before Contributions" of \$15,994 for the fiscal year ended December 31, 2004, as compared to a loss of \$23,214 for the fiscal year ended December 31, 2003.

**Mount Hermon Water District  
of the  
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Franklinton, Louisiana**

**Management's Discussion and Analysis**

**Budgetary Highlights**

Mount Hermon Water District adopts an annual operating budget in accordance with requirements of the United States Department of Agriculture, Rural Utilities Service. This budget provides an estimate for the current fiscal year of the proposed expenditures and the revenues that will finance the operations of the District. The operating budget is adopted before the end of the prior fiscal year, and is amended by the Board of Commissioners after review of monthly budget-to-actual financial reports. A summary of the approved budget is presented below in a condensed format summarizing major revenue and expenditure categories, and is followed by analysis of significant variations between budget and actual amounts. Although not presented as a part of the basic financial statements, a more detailed schedule is also presented in "Schedule 1 - Budgetary Comparison Schedule", as supplementary information.

**Budget vs. Actual - Fiscal Year Ended December 31, 2004**

	Budget Year Ended December 31, 2004	Actual Year Ended December 31, 2004	Favorable (Unfavorable) Variance
Revenues:			
Operating	\$ 103,420	\$ 109,027	\$ 5,607
Nonoperating	450	126	(324)
Total Revenues	<u>103,870</u>	<u>109,153</u>	<u>5,283</u>
Operating Expenses:			
Accounting	5,000	3,300	1,700
Bad Debt	300	887	(587)
Depreciation	40,000	40,080	(80)
Director Fees	3,000	1,500	1,500
Insurance	3,000	3,727	(727)
Supplies	240	2,250	(2,010)
Miscellaneous	345	-	345
Operations & Maintenance Contract	34,000	33,714	286
Repairs and Maintenance	400	391	9
Utilities	7,000	4,387	2,613
Total Operating Expenses	<u>93,285</u>	<u>90,236</u>	<u>3,049</u>
Non-Operating Expenses:			
Interest Expense	<u>36,250</u>	<u>34,911</u>	<u>1,339</u>
Total Nonoperating Expenses	<u>36,250</u>	<u>34,911</u>	<u>1,339</u>
Total Expenses	<u>129,535</u>	<u>125,147</u>	<u>4,388</u>
Income (Loss) Before Capital Contributions	<u>\$ (25,665)</u>	<u>\$ (15,994)</u>	<u>\$ 9,671</u>

There was no significant variation between budgeted and actual "Operating" and "Nonoperating Revenues" for the fiscal year ending December 31, 2004.

**Mount Hermon Water District  
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**Management's Discussion and Analysis**

Budgeted "Operating Expenses" were \$3,049 lower than projected primarily because of decreases in legal and professional fees and in utilities expense.

**Other Significant Trends and Account Changes**

Included within this section is first a listing and analysis of general trends and operating data affecting the operation of the District. This is followed by an analysis of any significant account changes, not included within other sections of the Management's Discussion and Analysis.

**General Operating Data**

	<u>December 31, 2004</u>	<u>December 31, 2003</u>	<u>Increase (Decrease)</u>
Customers:			
Residential	310	304	6
Commercial	5	5	-
Total	<u>315</u>	<u>309</u>	<u>6</u>

The above table shows an increase of six customers from the prior fiscal year.

**Mount Hermon Water District  
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**Management's Discussion and Analysis**

**Other Significant Trends and Account Changes (Continued)**

One key measure of a water district's profitability, and the ability to generate positive cash flows, is the ability of the water system to collect accounts receivable on a timely basis. Presented below is an aged receivable listing for the fiscal years ending December 31, 2004, and 2003.

	Year Ended December 31, 2004	Year Ended December 31, 2003	Increase (Decrease)
0 - 30 Days Past Due	\$ 5,851	\$ 5,075	\$ 776
31 - 60 Days Past Due	320	457	(137)
61 - 90 Days Past Due	67	62	5
Over 90 Days Past Due	16	80	(64)
Total Accounts Receivable for Water (Before Allowance for Bad Debts)	<u>\$ 6,254</u>	<u>\$ 5,674</u>	<u>\$ 580</u>

The above table shows a decrease in amounts past due for all categories except "61-90 Days Past Due" which remained relatively constant.

**Capital Assets**

At the end of the fiscal year ending December 31, 2004, Mount Hermon Water District had \$1,293,818 (net of accumulated depreciation) recorded in capital assets. This includes water systems and improvements, the District's investment for storage for water system equipment and supplies, and land owned by the District. The changes in capital assets are presented in the table below.

	December 31, 2004	December 31, 2003	Dollar Change	Percent Change
Land	\$ 3,890	\$ 3,890	-	0.00%
Water Distribution System	1,603,212	1,603,212	-	0.00%
Subtotal	1,607,102	1,607,102	-	0.00%
Less: Accumulated				
Depreciation	(313,284)	(273,204)	(40,080)	14.67%
Net Capital Assets	<u>\$ 1,293,818</u>	<u>\$ 1,333,898</u>	<u>\$ (40,080)</u>	-3.00%

The decrease of \$40,080 in capital assets is attributable to depreciation charged on capital assets for the fiscal year ending December 31, 2004.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Management's Discussion and Analysis**

**Long-Term Debt Activity**

The primary source of long-term financing for Mount Hermon Water District water system improvements is a revenue bond financed by the United States Department of Agriculture, Rural Utilities Service (RUS). The sole issue consists of 1996 Water Revenue bonds with a principal balance of \$693,216 at December 31, 2004. These bonds mature on February 6, 2036 and were issued at an interest rate of 5.0%, with a term of 40 years.

Bonds financed for Mount Hermon Water District require a specific debt to net income ratio. Specifically, bond covenants require:

The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2004, the bond debt coverage factor was 131%, which is above the *percentage required by the bond covenant of 120%, as compared to 117% for the fiscal year ending December 31, 2003.*

**Future Economic Plans**

*The Mount Hermon Water District's management approach is conservative. The Board of Commissioners actively monitor revenues and expenses and approve rate increases only when necessary to pay operating expenses and fund water revenue bond requirements.*

# Financial Statements

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Statement A**

**Balance Sheet  
December 31, 2004 and 2003**

**Assets**

**Current Assets:**

Cash

	2004	2003
\$	36,384	\$ 28,908

Accounts Receivable (Net)

	6,254	5,674
--	-------	-------

Accrued Billings

	4,407	4,229
--	-------	-------

Prepaid Insurance

	317	418
--	-----	-----

Total Current Assets

	47,362	39,229
--	--------	--------

**Restricted Assets:**

Cash - RUS Depreciation & Contingency Fund

	24,036	17,877
--	--------	--------

Cash - RUS Bond Reserve Fund

	20,227	21,739
--	--------	--------

Total Restricted Assets

	44,263	39,616
--	--------	--------

**Property, Plant and Equipment:**

Land

	3,890	3,890
--	-------	-------

Water System

	1,603,212	1,603,212
--	-----------	-----------

Total Property, Plant and Equipment

	1,607,102	1,607,102
--	-----------	-----------

Less: Accumulated Depreciation

	-313,284	-273,204
--	----------	----------

Net Property, Plant and Equipment

	1,293,818	1,333,898
--	-----------	-----------

**Other Assets:**

Utility Deposits

	220	220
--	-----	-----

Total Other Assets

	220	220
--	-----	-----

Total Assets

	\$ 1,385,663	\$ 1,412,963
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(Continued)

See accompanying notes and accountant's report.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
Washington Parish Council  
Franklinton, Louisiana**

**Statement A**

**Balance Sheet  
December 31, 2004 and 2003**

**Liabilities and Net Assets**

	<u>2004</u>	<u>2003</u>
<b>Liabilities:</b>		
<b>Current Liabilities (Payable From Current Assets):</b>		
Accounts Payable	\$ 5,950	\$ 5,855
Accrued Auditing Fees	-	2,900
Sales Tax Payable	53	49
Other Payable	941	808
<b>Total Current Liabilities (Payable From Current Assets)</b>	<u>6,944</u>	<u>9,612</u>
<b>Current Liabilities (Payable From Restricted Assets):</b>		
Customer Deposits Payable	7,779	6,853
Current RUS Bond Payable	9,992	9,477
Accrued RUS Bond Interest	2,754	2,216
<b>Total Current Liabilities (Payable From Restricted Assets)</b>	<u>20,525</u>	<u>18,546</u>
<b>Long-Term Liabilities:</b>		
RUS Bonds Payable	683,224	693,791
<b>Total Long-Term Liabilities</b>	<u>683,224</u>	<u>693,791</u>
<b>Total Liabilities</b>	<u>710,693</u>	<u>721,949</u>
<b>Net Assets:</b>		
Invested in Capital Assets, Net of Related Debt	600,602	630,630
Restricted for Capital Activity and Debt Service	36,484	32,763
Unrestricted	37,884	27,621
<b>Total Net Assets</b>	<u>674,970</u>	<u>691,014</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 1,385,663</u>	<u>\$ 1,412,963</u>

(Concluded)

See accompanying notes and accountant's report.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
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Franklinton, Louisiana**

**Statement B**

**Statement of Revenues, Expenses, and Changes in Net Assets  
Years Ended December 31, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>		
Water Sales	\$ 101,745	\$ 96,738
Installation Fees	4,535	3,975
Penalties	2,298	2,158
Miscellaneous Revenue	449	994
Total Operating Revenues	<u>109,027</u>	<u>103,865</u>
 <b>Operating Expenses</b>		
Accounting	3,300	3,200
Bad Debt	887	499
Depreciation Expense	40,080	40,080
Insurance	3,727	2,575
Legal & Professional Fees	-	2,900
Mileage	2,250	-
Miscellaneous	-	2
Office Expense	-	-
Operations and Maintenance - Contract	33,714	32,976
Per diem - Board Commissioners	1,500	3,000
Repairs and Maintenance	391	51
Safe Drinking Water	-	133
Truck Expense	-	136
Utilities	4,387	6,360
Total Operating Expenses	<u>90,236</u>	<u>91,912</u>
 <b>Operating Income (Loss)</b>	 <u>18,791</u>	 <u>11,953</u>
 <b>Non-Operating Revenues (Expenses)</b>		
Interest Income	126	166
Recovery of Bad Debts	-	40
Interest Expense	-34,911	-35,373
Total Non-Operating Revenues (Expenses)	<u>-34,785</u>	<u>-35,167</u>
 <b>Income (Loss) Before Contributions</b>	 -15,994	 -23,214
<b>Capital Contributions</b>	<u>-50</u>	<u>-98</u>
<b>Change in Net Assets</b>	<u>-16,044</u>	<u>-23,312</u>
 <b>Net Assets, Beginning of Year</b>	 <u>691,014</u>	 <u>714,326</u>
<b>Net Assets, End of Year</b>	<u>\$ 674,970</u>	<u>\$ 691,014</u>

See accompanying notes and accountant's report.

**Mount Hermon Water District  
of the  
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**Statement C**

**Statement of Cash Flows  
Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Cash Flows From Operating Activities</b>		
Received From Customers	\$ 108,270	\$ 105,548
Received (Paid) for Meter Deposit Fees	926	898
Paid for Operations	-52,724	-47,985
Net Cash Flows From Operating Activities	56,472	58,461
<b>Cash Flows From Noncapital Financing Activities</b>		
Recovery of Bad Debts	-	40
Net Cash Flows From Noncapital Financing Activities	-	40
<b>Cash Flows From Capital and Related Financing Activities</b>		
Return of Capital Contributions	-50	-98
Paid for Capital Acquisitions		
Principal Payments - Long-Term Debt	-10,052	-9,121
Interest Payments - Long-Term Debt	-34,373	-35,304
Net Cash Flows From Capital and Related Financing Activities	-44,475	-44,523
<b>Cash Flows From Investing Activities</b>		
Receipt of Interest and Dividends	126	166
Net Cash Flows From Investment Activities	126	166
<b>Net Change in Cash and Cash Equivalents</b>	12,123	14,144
<b>Cash and Cash Equivalents - Beginning of Year</b>	68,524	54,380
<b>Cash and Cash Equivalents - End of Year</b>	\$ 80,647	\$ 68,524
<b>Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets</b>		
Cash	36,384	28,908
Restricted Cash	44,263	39,616
Cash and Cash Equivalents - End of Year	\$ 80,647	\$ 68,524

(Continued)

See accompanying notes and accountant's report.

**Mount Hermon Water District  
of the  
Parish of Washington, Louisiana  
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**Statement C**

**Statement of Cash Flows  
Years Ended December 31, 2004 and 2003**

	2004	2003
<b>Reconciliation of Operating Income to Net Cash Flows</b>		
<b><i>From Operating Activities</i></b>		
Operating Income (Loss)	\$ 18,791	\$ 11,953
Adjustments to Reconcile Operating Income to Net Cash		
Flows From Operating Activities:		
Depreciation Expense	40,080	40,080
Changes in Assets and Liabilities:		
Decrease (Increase) in Customer Receivables	-758	2,183
Decrease (Increase) in Prepaid Insurance	101	-182
Increase (Decrease) in Accounts Payable	95	3,476
Increase (Decrease) in Meter Deposit Payable	926	898
Increase (Decrease) in Other Payables	-2,763	53
Net Cash Flows From Operating Activities	\$ 56,472	\$ 58,461

(Concluded)

See accompanying notes and accountant's report.

**Mount Hermon Water District  
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**Notes to the Financial Statements  
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**Introduction**

Mount Hermon Water District of the Parish of Washington, State of Louisiana was established July 23, 1986, by an ordinance of the Washington Parish Council. The ordinance, enacted pursuant to Chapter 8 of Title 33 of the Louisiana Revised Statutes of 1950, and other constitutional and statutory authority supplemented thereto, describes and defines the boundaries of the water district, and provides for a 5-member governing board of commissioners appointed by the Washington Parish Council.

Mount Hermon Water District was thus created and constitutes a public corporation and political subdivision of the State of Louisiana, and has all the power and privileges granted by the constitution and statutes of this state to such subdivision, including the authority to incur debt, to issue bonds, and to levy taxes and assessments.

Construction of the water system plant and equipment for the water system was financed under a loan/grant program from the United States Rural Utilities Service (RUS) office, with construction completed in March, 1997. Mount Hermon Water District, as of December 31, 2004, serves 315 water customers. The District contracts the operation and maintenance of the water system, including billings of water customers, to an outside agent.

GASB Statement No. 14, *The Reporting Entity*, established criteria for determining the governmental reporting entity and component units that should be included within the reporting entity. Under provisions of this Statement, the Mount Hermon Water District is considered a component unit of Washington Parish Council.

**1. Summary of Significant Accounting Policies**

**A. Measurement Focus and Basis of Accounting and Financial Statement Presentation**

The District's financial statements are prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America. The District applies all Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, and the Accounting Principle Board (APB) of the Committee On Accounting Procedure, issued on or before November 30, 1989, unless those pronouncements conflict or contradict with GASB pronouncements.

These financial statements are presented in conformance with GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*. Statement No. 34 established standards for financial reporting, with presentation requirements including a statement of net assets (or balance sheet), a statement of activities and changes in net assets, and a statement of cash flows. The District has also adopted the provisions of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, that require capital contributions to the District be presented as a change in net assets.

All activities of the District are accounted for in a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprise, where the intent of the governing authority is that the cost (expenses, including depreciation) of

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*providing services on a continuing basis be financed or recovered primarily through user charges.*

Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

The term measurement focus denotes what is being measured and reported in the District's operating statement. Financial operations of the District are accounted for on the flow of economic resources measurement focus. With this measurement focus, all of the assets and liabilities, available to the District for the purpose of providing goods and services to the public, are included on the balance sheet. The activity statement includes all costs of providing goods and services during the period.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations, primarily the provision of water to rural areas of Washington Parish. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

*When both restricted and unrestricted resources are available for use, it is the entity's policy to use restricted resources first, then unrestricted resources as they are needed.*

**B. Cash and Cash Equivalents and Investments**

Cash includes amounts in demand deposits, interest-bearing demand deposits, and money market accounts. Cash equivalents include amounts in time deposits and those investments with original maturities of 90 days or less. Under state law, the District may deposit funds in demand deposits, interest-bearing demand deposits, money market accounts, or time deposits with state banks organized under Louisiana law or any other state of the United States, or under the laws of the United States.

**C. Investments**

Investments are limited by Louisiana Revised Statute (R.S.) 33:2955 and the District's investment policy. If the original maturities of investments exceed 90 days, they are classified as investments; however, if the original maturities are 90 days or less, they are classified as cash equivalents.

The following disclosures are required by GASB Statement No. 31:

- The District uses the quoted market prices to estimate the fair value of the investments.
- None of the investments are reported at amortized cost.
- The District has investments in one investment pool. The investment pool is LAMP, and the fair value of the position in the pool is the same as the value of the pool shares.
- There is no involuntary participation in an external investment pool.

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At December 31, 2004, Mount Hermon Water District had no investments.

**D. Inventories**

Purchases of various operating supplies are regarded as expenses at the time purchased, and inventories of such supplies (if any) are not recorded as assets at the close of the fiscal year.

**E. Prepaid Items**

Payments made to vendors that will benefit periods beyond the end of the current calendar year are recorded as prepaid items. Prepaid items consist of prepaid insurance premiums.

**F. Restricted Assets**

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

**G. Capital Assets**

Capital assets of the District are defined by the District as assets with an initial, individual cost of more than \$500, and an estimated useful life in excess of one year. Capital assets are recorded at either historical cost or estimated historical cost. Donated assets, including water systems donated for continued maintenance by the District, are valued at their estimated fair market value on the date donated. Depreciation of all exhaustible fixed assets is charged as an expense against operations. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, as follows:

<i>Buildings</i>	15 - 30 years
Equipment & Furniture	5 - 10 years
Water System	20 - 40 years

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

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**H. Compensated Absences**

At December 31, 2004, the District did not have employees that accumulate or vest benefits.

**I. Long-term Liabilities**

Long-term liabilities are recognized within the Enterprise Fund. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**J. Net Assets**

GASB Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, requires classification of net assets, the difference between the District's assets and liabilities, into three components, as described below:

- Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, or indebtedness attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net asset calculation as unspent proceeds.
- Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

**K. Use of Estimates**

The preparation of financial statements in conformance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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**2. Cash and Cash Equivalents**

At December 31, 2004, the District had cash and cash equivalents (book balances) totaling \$80,647, in Demand Deposits at one bank.

These deposits are stated at cost, which approximates market value. Under state law, these deposits (or the resulting bank balances) must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the pledging fiscal agent bank in a holding or custodial bank that is mutually acceptable to both parties. At December 31, 2004 the District had \$79,180 in collected bank balances, protected by \$100,000 of federal deposit insurance.

Even though the pledged securities are considered uncollateralized (Category 3) under the provisions of GASB Statement 3, Louisiana Revised Statute 39:1229 imposes a statutory requirement on the custodial bank to advertise and sell the pledged securities within 10 days of being notified by the District that the fiscal agent has failed to pay deposited funds upon demand.

**3. Receivables**

The following is a summary of receivables at December 31, 2004:

Current	\$	5,851
31 - 60		320
61 - 90		67
Over 90		16
Total	\$	<u>6,254</u>

All customer receivables are reported at gross value and are periodically reduced by the portion that is expected to be uncollectible. The board of commissioners of the Mount Hermon Water District reviews past due accounts and authorizes the write-off of uncollectible amounts directly against the accounts receivable account. At fiscal year-end, the District had not established an allowance for uncollectible accounts, since the amount of uncollectible accounts at December 31, 2004, was determined to be immaterial.

*Estimated unbilled revenues (accrued billings) are recognized at the end of each fiscal year on a pro-rata basis. The estimated amount is based on billing during the month following close of the fiscal year. At December 31, 2004, Mount Hermon Water District recorded accrued billings of \$4,407.*

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**Notes to the Financial Statements  
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**4. Restricted Assets**

Restricted assets were applicable to the following at December 31, 2004:

	December 31, 2004
Cash-RUS Bond Reserve	\$ 20,227
Cash-RUS Depreciation and Contingency	24,036
Total Restricted Assets	\$ 44,263

**5. Fixed Assets**

A summary of fixed assets at December 31, 2004, follows:

	Balance December 31, 2003	Additions and Reclassifications	Deletions and Reclassifications	Balance December 31, 2004
Land	\$ 3,890	-	\$ -	\$ 3,890
Water Distributions System	1,603,212	-	-	1,603,212
Total Capital Assets	1,607,102	-	-	1,607,102
Less: Accumulated Depreciation	(273,204)	(40,080)	-	(313,284)
Net Capital Assets	\$ 1,333,898	\$ (40,080)	\$ -	\$ 1,293,818

The water system, financed under the United States Department of Agriculture, Rural Utilities Service Loan/Grant program, became operational in March of 1997. Equipment, furniture, and fixtures are depreciated using the useful lives of 5 to 10 years, and the water distribution system uses a useful life of 40 years. All assets are depreciated by the straight-line method. Total depreciation expense of \$40,080 was recorded for the fiscal year ending December 31, 2004.

**6. Long-Term Liabilities**

The following is a summary of the long-term liability transactions during the year:

Description	Long-Term Liabilities Beginning of Year	Additions	Deletions	Long-Term Liabilities End of Year	Due Within One Year
1996 Water Revenue Bonds	\$ 703,268	\$ -	\$ (10,052)	\$ 693,216	\$ 9,992
Total	\$ 703,268	\$ -	\$ (10,052)	\$ 693,216	\$ 9,992

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Bonds Payable at December 31, 2004, are comprised of the following current and long-term amounts:

	Current Amount 12/31/04	Long-Term Amount 12/31/04	Total Principal Balance 12/31/04
1996 Revenue Bonds:			
\$754,000 utility bonds, dated 2/08/96; due in monthly installments of \$3,702 through Feb. 6, 2036; interest at 5.0%	\$ 9,992	\$ 683,224	\$ 693,216

The annual requirements to amortize all debt outstanding as of December 31, 2004, including interest payments of \$691,363 are as follows:

Year Ending December 31,	1996 RUS Water Revenue Bonds \$754,000
2005	\$ 44,425
2006	44,425
2007	44,425
2008	44,425
2009	44,425
2010-2014	222,125
2015-2019	222,125
2020-2024	222,125
2025-2029	222,125
2030-2034	222,125
2035-2036	51,829
	\$ 1,384,579

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**7. Flow of Funds, Restrictions on Use**

As of December 31, 2004, Mount Hermon Water District, had one Rural Utilities Service (RUS) Revenue Bond. The total bond amount of \$754,000 was issued February 8, 1996, at an interest rate of 5.0%. The original bond resolution specifies that the bonds shall be secured and payable in principal and interest exclusively by a pledge of the income and revenues derived or to be derived from the operation of the system. Other specific legal requirements and bond restrictions are summarized below:

- a) The issuer, Mount Hermon Water District, covenants to fix, establish, and maintain such rates and collect such fees, rents, or other charges for the services and facilities of the System, and all parts thereof, and to revise the same from time to time whenever necessary, to pay the reasonable and necessary expenses of operating and maintaining the system in each year, all reserves or sinking funds required, and all other obligations or indebtedness payable out of the revenues of the System, and which will provide revenues in each year, after paying all reasonable and necessary expenses of operating and maintaining the System, at least equal to 120% of the largest amount of principal and interest maturing on the bonds in any future fiscal year and on any parity bonds issued thereafter.

For the fiscal year ending December 31, 2004, the bond debt coverage factor was 131%, which is above the percentage required by the bond covenant of 120%, as compared to 117% for the fiscal year ending December 31, 2003.

- b) The establishment and maintenance of a "Water Bond and Interest Sinking Fund" (the Sinking Fund) sufficient in amount to pay promptly and fully the principal and interest on the bonds.

The actual creation of a sinking fund was not required since the District pays required bond installments directly to Rural Utilities Service, on a monthly basis. At December 31, 2004, Mount Hermon Water District had made the required monthly installments.

- c) The establishment of the "Water Revenue Bond Reserve Fund" (the Reserve Fund) by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20<sup>th</sup> of each month a sum at least equal to five per cent (5%) of the amount to be paid each month for bond principal and interest payments. The actual amount to be transferred for bonds outstanding at December 31, 2004, per the RUS Letter of Conditions, was a total of \$185 per month. Deposit of funds shall continue until such time as there has been accumulated in the Reserve Fund an amount of money equal to the highest combined principal and interest requirements of any succeeding twelve month period. The money in the Reserve Fund is required to be retained solely for the purpose of paying the principal and interest on bonds payable, upon approval by the Rural Utilities Service office, for which there would otherwise be default. Deposits to the Reserve Fund were required to commence with the month following completion and acceptance of the improvements and extensions financed with the proceeds of the bonds. The system improvements financed with the 1996 Revenue Bonds became revenue producing during March, 1997.

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The District made all of the required deposits to the Reserve Fund, maintaining a balance of \$20,227, at December 31, 2004.

- d) The establishment and maintenance of the "Water Depreciation and Contingency Fund" (the Contingency Fund) to care for depreciation, extensions, additions, improvements and replacements necessary to operate properly the System, by transferring from the Water Revenue Fund, the operating account of the District, monthly in advance on or before the 20<sup>th</sup> of each month the sum of \$191 per month. Money in the Contingency Fund may also be used, upon approval, to pay the principal and interest on any bond for which there is not sufficient money in the Sinking Fund or the Reserve Fund.

The District made all of the required deposits to the Depreciation and Contingency Fund, maintaining a balance of \$24,036, at December 31, 2004.

- e) The District, in the original bond resolution also obligated itself to abide by the following covenants:
1. The District will shut off service if the delinquent charge, with interest and penalties accrued thereon, is not paid within fifteen days from the date on which such charges became delinquent.
  2. A penalty of 10% will be charged on all delinquent accounts, and interest at a reasonable rate as established by the District, as well as payment of a reasonable reconnect charge for the resumption of services.
  3. The District agrees to maintain the System in first class repair and working order and condition.
  4. The District will carry full insurance coverage on the System in the manner required by the Government, with a company licensed to do business under the laws of Louisiana.
  5. The District will maintain separate and correct records and accounts, and will have the books audited no later than three months after the end of the fiscal year.
  6. The District will not sell, lease or in any manner dispose of the System or any substantial part thereof, provided the District may dispose of property that in its judgement is worn-out, unserviceable, unsuitable, or unnecessary in the operation of the System.
  7. The District will not, except as provided by this bond resolution, voluntarily create or cause to be created any debt, lien pledge, mortgage, assignment, or any other charges having priority or parity with the liens of the Bonds upon the income and revenues of the System pledged as security therefor.
  8. That, to the extent permitted by law, the District will not grant a franchise to any utility for operation within the boundaries of the District.
  9. In operation of the System, the District will require all officers and employees in a position of authority or in possession of money derived from operations of the System to be covered by a blanket fidelity bond or faithful performance bond.

The current rate schedule, the schedule of insurance coverages (Item # 4) and fidelity bond coverages (Item # 9) are disclosed in the "Supplemental Information" schedules included as a part of this report.

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**8. Restricted and Designated Net Assets**

At December 31, 2004, Mount Hermon Water District recorded \$36,484 in Restricted Net Assets (Restricted for Capital Activity and Debt Service), representing the District's funds restricted by revenue bond debt covenants. Restricted Net Assets are recorded net of any liability relating to those assets, although for the fiscal year ending December 31, 2004, liabilities were not recorded relating to Restricted Net Assets. A liability relates to restricted assets if the asset results from incurring the liability or if the liability will be liquidated with the restricted assets.

**9. Water System Management**

The water district is operated under a contract with an outside party. The contract management provides services for operation and maintenance of the system, including billing services for the water district.

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## **SUPPLEMENTAL INFORMATION**

**Mount Hermon Water District  
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**Schedule 1**

**Budgetary Comparison Schedule  
For the Year Ended December 31, 2004  
With Comparative Amounts for the Fiscal Year Ended December 31, 2003**

	2003 <u>Budget</u>	2004 <u>Actual</u>	Variance- Favorable (Unfavorable)	2003 <u>Actual</u>
<b>Operating Revenues</b>				
Water Sales	\$ 96,600	\$ 101,745	\$ 5,145	\$ 96,738
Installation Fees	3,600	4,535	935	3,975
Penalties	2,000	2,298	298	2,158
Miscellaneous Revenue	1,220	449	-771	994
Total Operating Revenues	<u>103,420</u>	<u>109,027</u>	<u>5,607</u>	<u>103,865</u>
<b>Operating Expenses</b>				
Accounting	5,000	3,300	1,700	3,200
Bad Debt	300	887	-587	499
Depreciation Expense	40,000	40,080	-80	40,080
Insurance	3,000	3,727	-727	2,575
Legal & Professional	-	-	-	2,900
Maintenance Supplies	240	2,250	-2,010	-
Miscellaneous	120	-	120	2
Operations and Maintenance - Contract	34,000	33,714	286	32,976
Per diem - Board Members	3,000	1,500	1,500	3,000
Repairs and Maintenance	400	391	9	51
Safe Drinking Water	105	-	105	133
Truck Expense	120	-	120	136
Utilities	7,000	4,387	2,613	6,360
Total Operating Expense	<u>93,285</u>	<u>90,236</u>	<u>3,049</u>	<u>91,912</u>
<b>Operating Income (Loss)</b>	<u>10,135</u>	<u>18,791</u>	<u>8,656</u>	<u>11,953</u>

(Continued)  
See accountant's report.

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**Schedule 1**

**Budgetary Comparison Schedule  
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	2004 <u>Budget</u>	2004 <u>Actual</u>	Variance- Favorable (Unfavorable)	2003 <u>Actual</u>
Interest Income	\$ 400	\$ 126	\$ -274	\$ 166
Recovery of Bad Debts	50	-	-50	40
Interest Expense	<u>-36,250</u>	<u>-34,911</u>	1,339	<u>-35,373</u>
Total Non-Operating Revenues (Expenses)	<u>-35,800</u>	<u>-34,785</u>	<u>1,015</u>	<u>-35,167</u>
<b>Income (Loss) Before Contributions</b>	-25,665	-15,994	9,671	-23,214
<b>Capital Contributions</b>	<u>-</u>	<u>-50</u>	<u>-50</u>	<u>-98</u>
<b>Change in Net Assets</b>	-25,665	-16,044	9,621	-23,312
<b>Net Assets, Beginning of Year</b>	<u>691,014</u>	<u>691,014</u>	<u>-</u>	<u>714,326</u>
<b>Net Assets, End of Year</b>	<u>\$ 665,349</u>	<u>\$ 674,970</u>	<u>\$ 9,621</u>	<u>\$ 691,014</u>

(Concluded)

See accountant's report.

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**Schedule 2**

**Schedule of Compensation Paid to Board Commissioners  
For the Year Ended December 31, 2004**

The schedule of compensation paid board commissioners is presented in compliance with House Concurrent Resolution No. 54 of the 1979 Session of the Louisiana Legislature.

<u>Name</u>	<u>Amount</u>
Bill Estes, President	\$ 750
Everette Roberts, Vice-President	750
Buddy Holmes, Secretary/Treasurer	750
Avant Vernon, Board Member	750
Gary Fenner	750
	\$ 3,750

<u>Board of Commissioners</u>	<u>Address</u>	<u>Term of Office</u>
Bill Estes, President	38009 Bennie Morris Rd Mt. Hermon, LA 70450 (985) 877-5933	Expires Dec. 31, 2004
Everette Roberts, Vice-President	36095 Thomas Cryer Rd. Mt. Hermon, LA 70450 (985) 877-3051	Expires Dec. 31, 2004
Buddy Holmes, Secretary/Treasurer	35093 Hwy. 38 Mt. Hermon, LA 70450 (985) 877-4691	Expires Dec. 31, 2005
Avant Vernon, Board Member	27285 Mt. Pisgah Rd. Mt. Hermon, LA 70450 (985) 877-5824	Expires Dec. 31, 2005
Gary Fenner, Board Member	35483 Dock Butler Rd Mt. Hermon, LA 70450 (985) 877-5058	Expires Dec. 31, 2005

See accountant's report.

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**Schedule 3**

**Schedule of Insurance  
For the Year Ended December 31, 2004**

<u>Insurance Company</u>	<u>Coverage</u>	<u>Amount</u>	<u>Period</u>
American Central Insurance Company Policy # CBP9686642	General Aggregate Limit (other than Products / Completed Operations)	\$ 200,000	2/01/04 - 2/01/05
	Products / Completed Operations Aggregate Limit	\$ 200,000	
	Personal and Adverting Injury	\$ 100,000	
	Each Occurrence Limit	\$ 100,000	
	Fire Damage Limit	\$ 100,000	
	Medical Expenses	\$ 5,000	
CNA Surety Policy # 68463190	Public Official Position Schedule Bond:		1/02/04- 1/02/05
	President	\$ 50,000	
	Secretary-Treasurer	\$ 50,000	
American Central Insurance Company Policy # CBP9686642	Building	\$ 9,400	2/01/04 -
	Personal Property	\$ 79,900	2/01/05

0

See accountant's report.

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**Schedule 4**

**Schedule of Water Customers  
For the Year Ended December 31, 2004**

As of December 31, 2004, Mount Hermon Water District had the following number of customers.

Residential	310
Commercial	<u>5</u>
Total Customers	<u><u>315</u></u>

**Schedule of Water Rates  
For the Year Ended December 31, 2004**

At December 31, 2004, Mount Hermon Water District had adopted the following rate schedule.

<u>Category of Service</u>	<u>Rate/mo.</u>
<b>Residential:</b>	
First 3,000 gallons	\$ 15.00
Over 3,000 gallons	\$ 3.25 per 1,000 gallons
<b>Commercial:</b>	
First 20,000 gallons	\$ 30.00
Over 20,000 gallons	\$ 3.25 per 1,000 gallons

See accountant's report.